

From: "Dennis McDonald" <dennis.mcdonald@centralstate.com> on 04/02/2004 11:20:34 AM
Subject: Regulation BB - Community Reinvestment Act

Dennis McDonald
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Muscatine , Ia 52761

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Dear Federal Reserve :

I am writing on behalf of Central State Bank, a state-chartered bank located in Muscatine Iowa. Our customer base is a mix of blue collar manufacturing, white collar executive and rural agriculture with lending activities that are broad based and include commercial, consumer and real estate lending. Our current asset size is \$275,000,000 with a loan portfolio of \$140,000,000. We applaud and appreciate the proposed amendments to the Community Reinvestment Act being made by the Office of Comptroller of the Currency, Federal Reserve Board, Federal Deposit Insurance Corporation and Office of Thrift Supervision, "the Agencies." We also appreciate the Agencies' recognition and understanding of the challenges faced by community banks in meeting the requirements of the ever-growing number of compliance regulations.

Increasing the asset size of banks eligible for the small bank CRA exam from \$250 million to \$500 million and eliminating the holding company size limitations will go along way in reducing the regulatory burden of many small banks, including my institution. It is ridiculous to compare a bank with three branch locations and total assets of \$275 million to a bank with hundreds of locations and billions of dollars in assets under the same exam process. Small banks simply do not have the resources (money, manpower, technology) to compete with these large institutions under the large bank test. To many times a community bank, that has served its local community well, is not afforded the recognition it deserves simply because it is compared with huge multi-million dollar organizations. Just as the community investment abilities of small and large banks differ, so do the needs of the small and large communities they serve. The ripple affect of smaller dollar projects in a rural community may far outweigh a multi-million dollar investments' impact a metropolitan area, yet the small community bank's CRA rating often does not reflect this.

The reporting requirements under the large bank CRA exam process are staggering for a small bank. Our time and cost of CRA compliance more than doubled since we became a "large bank" a year and half ago. Under the current rules, due to our state's rural population our institution is not a HMDA reporter because it is not located in a MSA, but is still subject to the large bank CRA test and data collection because our assets are in excess of \$250 million. While community banks still must comply with the general requirements of CRA, this asset-size increase will eliminate some of the most problematic and burdensome elements of the current CRA regulation.

I also support the elimination of the bank holding company asset size threshold. We are the lead bank in a \$550,000,000 bank holding company (Central Bancshares, Inc.) We have four banks within a 75 mile radius that maintain their own charter, local Board of Directors, management and operational processes. As CEO of the holding company, it is my philosophy

to select strong board members, hire competent management and let the bank serve its local market as they see necessary to respond to their local communities needs. We do not have common names, common products or common marketing. We are a family owned organization and expect to continue to expand in this way. It is likely we will be over \$1 Billion in a few years. Three of our four banks are under \$250,000,000 and to require these banks to deal with the regulatory burden under the large bank CRA rule just because we have grown over \$1 Billion in assets is absurd. They would "inherit" the regulatory requirements of the holding company but would not benefit from the holding company's resources (we have no employees at the holding company and it is my intentions to keep it that way) for complying with these requirements.

Increasing the size of banks eligible for the small-bank streamlined CRA exam does not relieve banks from CRA responsibilities. The growth and survival of the bank is intertwined with the growth and survival of the community. We would not have grown to have the largest deposit base in Muscatine county if we had not been responsive to the needs of our customers. The change merely reduces the reporting requirements and costs for a small bank, freeing up more time and money that can be better spent in service to the Muscatine community.

Today's community banks are drowning in regulatory red tape, utilizing valuable resources to meet regulatory compliance mandates that could be put to much better use for economic and community development purposes in the communities they serve. Thank you for recognizing this and proposing the changes to the Community Reinvestment Act.

Sincerely,

Dennis McDonald